FDIC State Profile

Winter 2005

Vermont

Higher energy prices have affected Vermont households, and prices are expected to remain elevated in 2006. Employment growth has been at the national average.

- Prices of all energy products rose rapidly in 2005 as Gulf coast storms disrupted supplies of crude oil and natural gas across the United States. Nationally, retail prices of heating oil for calendar year 2005 are expected to average almost one-third more than a year earlier, and 2006 prices are expected to increase by an additional 10 percent.

- Costs of energy sources are generally more expensive in Vermont as the state has few indigenous energy resources to replace disrupted supplies. Energy costs in Vermont are expected to average about one-fifth higher in 2005 than in 2004 and to rise further in 2006 (see Chart 1).

- As a result, spending on residential energy in Vermont may be in excess of 5 percent of disposable income in 2005, with lower income households impacted most by higher prices.[1]

- Increased energy costs are affecting a moderately growing economy. Over the four quarters ending in the third quarter 2005, payroll employment in Vermont grew by 1.7 percent. This matched the national gain and was well above the New England average of 1.1 percent.

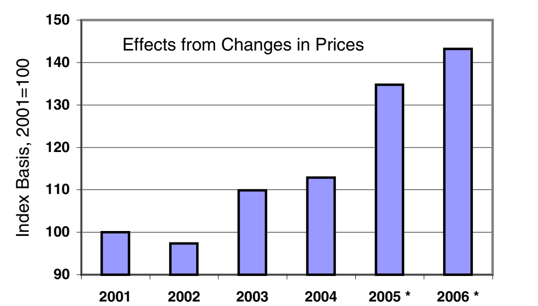
Housing markets remain strong, but changes may be underway.

- Sales of existing Vermont homes, both single-family and condominiums have been mostly strong in Vermont and the region over recent years.

- Vermont's yearly percentage increase in existing home prices as of third quarter 2005 was 12.4 percent, much lower than the 16.4 percent increase reported in the second quarter but still above the national rate of 12.0 percent (see Chart 2). Vermont's home price-appreciation has exceeded the nation's rate in every quarter since second quarter 2003.

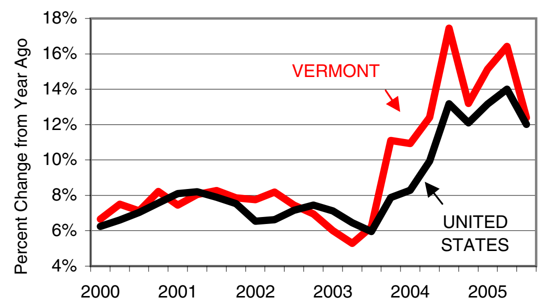
- Rising mortgage rates may reduce demand for new housing and refinancing activity. As of November, the 1-year

Chart 1: Residential Energy Costs Surged in Vermont during 2005



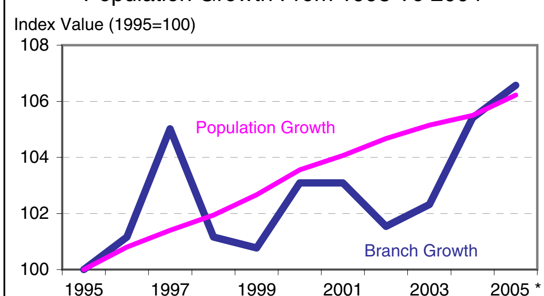
Source: Energy Information Agency * Forecast

Chart 2: House Prices in Vermont Are Rising Less Rapidly Than Before



Source: OFHEO, Haver Analytics

Chart 3: Vermont Branch Growth Lagged Population Growth From 1998 To 2004



* 2005 branch growth is actual; population growth is Census projection.
Sources: FDIC/OTS Summary of Deposits. U.S. Census, Economy.com

[1] FDIC estimates based on data supplied by the Bureau of Labor Statistics, Census Bureau, Bureau of Economic Analysis, and Moody's Economy.com.

adjustable rate averaged an almost four year high of 5.43 percent, and the 30-year fixed rate averaged a three-year high of 6.28 percent.

Vermont's population per branch is among the lowest in the nation.

- Vermont's population per branch has historically been in the bottom quintile of the 50 states, and is currently 30 percent below the national average. A low population-to-branch ratio, which is typical of rural areas, makes it challenging for a bank to increase operating efficiencies.

- Vermont's population grew steadily throughout the decade, albeit at a slower pace than the nation. During this time, branches increased slightly through 2003 then grew at a rate comparable to the national average in 2004 and 2005 (see Chart 3). This has brought the long-term growth rates of both measures into line. However, given the very low measure of population per branch, even in the state's one MSA, **Burlington**, it is likely that the current rate of branch expansion is not sustainable.

Vermont's insured institutions posted increases to net interest margins (NIMs) in 2005 but may feel pressure should short-term funding costs increase.

- Earnings in Vermont's insured institutions remained relatively stable through 2005 with a 0.99 percent median return on assets as of September 30, 2005, up slightly from 0.97 percent in third quarter 2004. Improved net interest income and noninterest income along with stable provision expenses aided earnings performance.

- Vermont's insured institutions NIMs have experienced a generally downward trend since peaking in the mid 1990s (see Chart 4). NIMs began to increase late in 2004 as asset yields improved while funding costs actually declined. However, funding costs began to increase early in 2005 but have been more than offset by strong gains in asset yields, producing positive results for NIMs.

Credit quality remains favorable in Vermont's insured institutions.

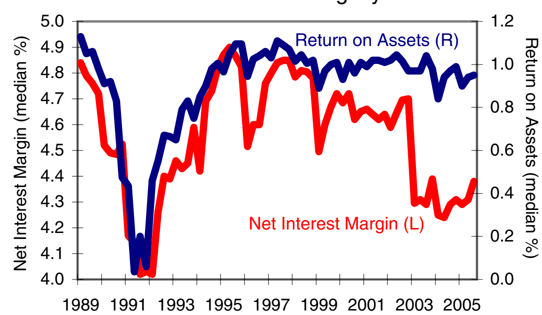
- Loan quality remained strong through third quarter 2005 in Vermont's insured institutions. The median delinquent loan rate remained just above 1 percent as of September 30, 2005 (see Chart 5). The state's high concentration of residential real estate loans, which historically have performed well, helps keep overall delinquency rates low.

As core deposit growth has slowed, Vermont institutions continue to add noncore funding.

- Despite small increases in 2005, deposits in Vermont's insured institutions funded a near-record low percentage of assets in 2005. In 1992 the median ratio of total deposits to assets was about 91 percent; this ratio dropped to 83 percent at the end of third quarter 2005. Core-deposit funding also registered a similar strong decline. During this time, the median ratio of noncore funding rose from about 7 percent of assets to 14 percent (see Chart 6).

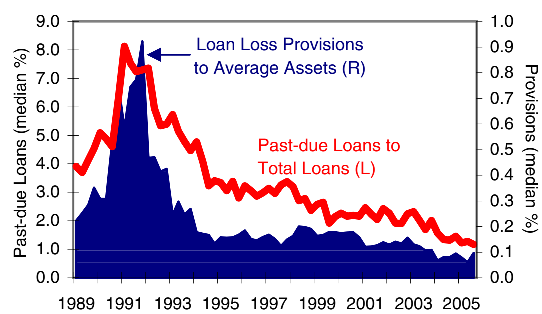
- The use of noncore funding is often more expensive than core deposit funding and tends to put downward pressure on net interest margins.

Chart 4: Net Interest Margins are Under Pressure but Increased Slightly in 2005



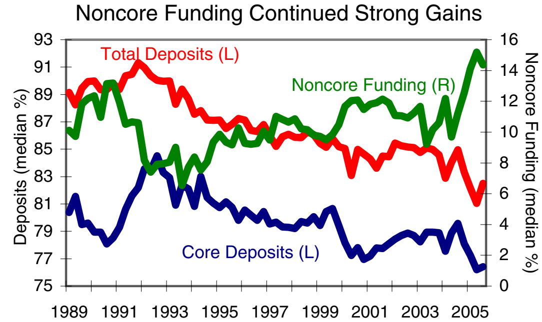
Source: FDIC, data through September 30, 2005

Chart 5: Favorable Credit Quality Allows Low Provisions in Vermont's Insured Institutions



Source: FDIC, data through September 30, 2005

Chart 6: Deposits Increased Slightly in 2005 but Noncore Funding Continued Strong Gains



Note: All data shown as a percentage of total assets.
Source: FDIC, data through September 30, 2005

Vermont at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.6%	1.5%	1.4%	1.3%	-0.1%
Manufacturing (12%)	0.7%	1.3%	0.1%	-1.3%	-7.5%
Other (non-manufacturing) Goods-Producing (6%)	6.0%	5.2%	6.8%	7.8%	3.2%
Private Service-Producing (65%)	1.6%	1.2%	1.3%	1.5%	0.6%
Government (17%)	0.6%	1.6%	0.7%	0.7%	2.2%
Unemployment Rate (% of labor force)	3.6	3.3	3.5	3.7	4.5

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	5.8%	6.4%	5.8%	3.4%
Single-Family Home Permits	15.5%	-0.9%	9.9%	11.4%	4.8%
Multifamily Building Permits	-42.8%	-53.1%	96.0%	110.5%	-38.4%
Existing Home Sales	N/A	19.6%	-13.3%	-2.1%	11.5%
Home Price Index	12.4%	16.4%	17.4%	13.5%	7.2%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	3.82	3.39	2.51	2.71	3.20

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	19	19	19	19	19
Total Assets (in millions)	8,145	7,960	7,767	7,866	7,453
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	0	0	0	0	0

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.17	1.27	1.32	1.46	2.01
ALLL/Total Loans (median %)	1.17	1.19	1.19	1.19	1.26
ALLL/Noncurrent Loans (median multiple)	2.56	2.46	2.16	2.38	1.88
Net Loan Losses / Total Loans (median %)	0.03	0.04	0.00	0.05	0.09

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.02	9.09	8.78	8.75	8.64
Return on Assets (median %)	0.99	0.97	0.97	0.99	0.98
Pretax Return on Assets (median %)	1.39	1.30	1.32	1.32	1.39
Net Interest Margin (median %)	4.47	4.35	4.22	4.31	4.39
Yield on Earning Assets (median %)	6.17	5.93	5.67	5.55	5.75
Cost of Funding Earning Assets (median %)	1.36	1.25	0.98	0.99	1.37
Provisions to Avg. Assets (median %)	0.09	0.07	0.08	0.09	0.11
Noninterest Income to Avg. Assets (median %)	0.74	0.65	0.70	0.72	0.89
Overhead to Avg. Assets (median %)	3.42	3.54	3.54	3.46	3.51

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	71.1	72.8	67.6	68.4	68.0
Noncore Funding to Assets (median %)	14.4	15.2	11.2	12.6	10.6
Long-term Assets to Assets (median %, call filers)	21.5	22.2	21.4	21.3	24.0
Brokered Deposits (number of institutions)	4	4	5	5	2
Brokered Deposits to Assets (median % for those above)	1.0	1.0	0.5	0.6	0.1

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	74.4	82.7	74.4	77.6	66.8
Commercial Real Estate	225.7	235.2	213.7	242.4	203.1
Construction & Development	35.1	25.8	26.9	26.8	19.6
Multifamily Residential Real Estate	12.8	12.4	12.0	13.4	14.6
Nonresidential Real Estate	174.1	176.2	187.0	185.2	170.2
Residential Real Estate	326.4	320.2	325.7	326.1	346.3
Consumer	40.0	37.6	42.0	39.5	42.7
Agriculture	4.5	6.0	7.1	5.7	6.5

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)
Burlington-South Burlington, VT	10	3,511

Asset Distribution	Institutions
< $250 million	11 (57.9%)
$250 million to $1 billion	6 (31.6%)
$1 billion to $10 billion	2 (10.5%)
> $10 billion	0 (0%)